



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 23, 2008

H.R. 3221 **Housing and Economic Recovery Act of 2008**

*As passed by the Senate on July 11, 2008, with an amendment transmitted to CBO
on July 22, 2008*

SUMMARY

This legislation would make a number of changes in federal housing policy. The major changes would:

- Provide temporary authority to the Secretary of the Treasury to purchase any obligations and other securities in any amounts issued by the government-sponsored enterprises (GSEs) involved in the mortgage market. Those GSEs include the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Banks (FHLBs).
- Establish a single regulator—the Federal Housing Finance Agency (FHFA)—for the GSEs involved in the home mortgage market.
- Require Fannie Mae and Freddie Mac to annually pay amounts equal to 4.2 basis points on each dollar of unpaid principal balance of each enterprise's total new business purchases (that is, 4.2 cents per \$100 of the value of the new mortgages purchased or securitized in that year). Those assessments would begin during fiscal year 2009 and would be deposited into new federal funds.
- Authorize—from October 1, 2008, through September 30, 2011—a new mortgage guarantee program under the Federal Housing Administration (FHA) that would allow certain at-risk borrowers to refinance their mortgages after the mortgage holder (lender or servicer) agrees to a write-down of the existing loan (that is, a reduction in the amount of loan principal). A portion of the GSEs' assessments would be used to pay the cost of this new program.
- Make several changes to the tax code affecting businesses and individuals.
- Increase the statutory limit on the public debt by \$800 billion.

CBO and the Joint Committee on Taxation (JCT) estimate that enacting this legislation would:

- Increase direct spending by \$41.7 billion over the 2008-2018 period, and
- Increase revenues by about \$16.8 billion over the 2008-2018 period.

In total, those changes would increase budget deficits (or reduce future surpluses) by about \$24.9 billion over the 2008-2018 period.

This cost estimate summarizes the estimated impact of the legislation on direct spending and revenues. CBO has not completed an estimate of the effects of H.R. 3221 on discretionary spending. Most of the provisions included in this legislation have been addressed in previous CBO cost estimates. For details on the basis for this estimate, see the CBO cost estimate transmitted on April 30, 2008, for H.R. 3221, the Foreclosure Prevention Act of 2008, as passed by the Senate on April 10, 2008, and the CBO cost estimate transmitted on June 9, 2008, for the Federal Housing Finance Regulatory Reform Act of 2008, as ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on May 20, 2008.

On July 22, 2008, CBO transmitted an analysis of the Administration's proposal to provide temporary authority to the Secretary of the Treasury to purchase any obligations and other securities in any amounts issued by the GSEs. CBO estimated that enacting that proposal would increase direct spending by \$25 billion over the 2009-2018 period. CBO's estimate for section 1117 of this legislation is unchanged from its estimate of the Administration's proposal. That estimate reflects a greater than 50 percent chance that the government would provide no financial assistance to the GSEs over the next 17 months, and nearly a 5 percent chance that such assistance would need to cover as-yet unrecognized losses greater than \$100 billion.

The nontax provisions of the amendment contain several intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates that the costs of the intergovernmental mandates would fall below the annual threshold established in UMRA for intergovernmental mandates (\$68 million in 2008, adjusted annually for inflation). However, CBO estimates that the aggregate direct cost of the private-sector mandates in the amendment would significantly exceed the annual threshold established in UMRA for private-sector mandates (\$136 million in 2008, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The bill's estimated budgetary impact over the next 10 years is shown in the following table. The costs of this legislation fall within budget functions 370 (commerce and housing credit), 450 (community and regional development), and 800 (general government).

ESTIMATED BUDGETARY IMPACT OF H.R. 3221, THE HOUSING AND ECONOMIC RECOVERY ACT OF 2008, AS PASSED BY THE SENATE ON JULY 11, 2008, WITH AN AMENDMENT TRANSMITTED TO CBO ON JULY 22, 2008

	By Fiscal Year, in Millions of Dollars											2008-	2008-
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2013	2018
CHANGES IN DIRECT SPENDING													
Purchase of GSE Debt and Equity													
Estimated Budget Authority	0	20,000	5,000	0	0	0	0	0	0	0	0	25,000	25,000
Estimated Outlays	0	20,000	5,000	0	0	0	0	0	0	0	0	25,000	25,000
Housing Trust Fund/Capital Magnet Fund													
Estimated Budget Authority	0	0	283	446	624	656	688	723	759	797	837	2,009	5,813
Estimated Outlays	0	0	131	326	510	618	667	701	736	772	811	1,585	5,272
Hope for Homeowners Program													
Estimated Budget Authority	0	531	282	149	0	0	0	0	0	0	0	962	962
Estimated Outlays	0	280	243	165	22	5	4	3	3	2	2	715	729
Refundable Credit for First-Time Homebuyers													
Estimated Budget Authority	192	3,892	564	0	0	0	0	0	0	0	0	4,648	4,648
Estimated Outlays	192	3,892	564	0	0	0	0	0	0	0	0	4,648	4,648
Redevelopment of Abandoned and Foreclosed Homes													
Estimated Budget Authority	3,920	0	0	0	0	0	0	0	0	0	0	3,920	3,920
Estimated Outlays	0	920	1,380	700	490	375	0	0	0	0	0	3,865	3,865
Spending of FHFA Fees													
Estimated Budget Authority	0	50	100	110	110	110	110	120	120	120	120	480	1,070
Estimated Outlays	0	50	100	110	110	110	110	120	120	120	120	480	1,070
Refunds of Certain R&E Credits													
Budget Authority	11	530	0	0	0	0	0	0	0	0	0	541	541
Estimated Outlays	11	530	0	0	0	0	0	0	0	0	0	541	541
Housing Counseling													
Budget Authority	180	0	0	0	0	0	0	0	0	0	0	180	180
Estimated Outlays	180	0	0	0	0	0	0	0	0	0	0	180	180
Treatment of Guaranteed Bonds													
Estimated Budget Authority	0	-52	91	69	22	0	0	0	0	0	0	130	130
Estimated Outlays	0	-52	83	60	34	5	0	0	0	0	0	130	130
Spending of NMLSR Fees													
Estimated Budget Authority	0	15	15	14	14	14	13	13	13	13	13	72	137
Estimated Outlays	0	15	15	12	12	11	11	11	11	11	11	65	120
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ESTIMATED BUDGETARY IMPACT OF H.R. 3221, Continued.

	By Fiscal Year, in Millions of Dollars											2008-	2008-
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2013	2018
Housing Benefits for Veterans													
Estimated Budget Authority	3	8	9	10	10	10	11	12	12	13	14	50	112
Estimated Outlays	3	8	9	10	10	10	11	12	12	13	14	50	112
Clarification of Disposition of Certain Properties													
Estimated Budget Authority	2	0	0	0	0	0	0	0	0	0	0	2	2
Estimated Outlays	2	0	0	0	0	0	0	0	0	0	0	2	2
Relocation Benefits for Service Members													
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	1	0	0	0	0	0	0	0	0	0	0	1	1
HECM Loan Insurance Program													
Estimated Budget Authority	1	0	0	0	0	0	0	0	0	0	0	1	1
Estimated Outlays	1	0	0	0	0	0	0	0	0	0	0	1	1
Increase in VA Housing Loan Guarantees													
Estimated Budget Authority	*	*	0	0	0	0	0	0	0	0	0	-1	-1
Estimated Outlays	*	*	0	0	0	0	0	0	0	0	0	-1	-1
Eligibility of Certain Projects for Enhanced Voucher Assistance													
Estimated Budget Authority	0	-1	0	0	0	0	0	0	0	0	0	-1	-1
Estimated Outlays	0	*	*	*	*	0	0	0	0	0	0	-1	-1
Total Direct Spending Under H.R. 3221													
Estimated Budget Authority	4,309	24,973	6,344	798	780	790	822	868	904	943	984	37,993	42,514
Estimated Outlays	390	25,643	7,525	1,383	1,188	1,134	803	847	882	918	958	37,261	41,669

CHANGES IN REVENUES

Division C - Tax-Related Provisions													
Title I	-168	-11,603	557	1,364	1,113	887	675	458	124	-429	-603	-7,849	-7,630
Title II	0	33	19	-9	-27	-39	-49	-60	-69	-76	-82	-22	-359
Title III	-800	-63	2,681	2,419	-7,592	20,348	-8,095	1,783	1,903	2,026	2,153	16,994	16,762
GSE Assessments ^a	0	531	565	595	624	656	688	723	759	797	837	2,971	6,775
FHFA Fees	0	50	100	110	110	110	110	120	120	120	120	480	1,070
NMLSR Fees	<u>0</u>	<u>15</u>	<u>15</u>	<u>14</u>	<u>14</u>	<u>14</u>	<u>13</u>	<u>13</u>	<u>13</u>	<u>13</u>	<u>13</u>	<u>72</u>	<u>137</u>
Total Estimated Revenues	-968	-11,037	3,937	4,493	-5,758	21,976	-6,658	3,037	2,850	2,451	2,438	12,646	16,755

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ESTIMATED BUDGETARY IMPACT OF H.R. 3221, Continued.

	By Fiscal Year, in Millions of Dollars											2008-	2008-
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2013	2018
NET CHANGE IN THE BUDGET DEFICIT OR SURPLUS													
Impact on Deficit/Surplus ^b	1,358	36,680	3,588	-3,110	6,946	-20,842	7,461	-2,190	-1,968	-1,533	-1,480	24,615	24,914

Notes: GSE = Government-sponsored enterprise; FHFA = Federal Housing Finance Agency; NMLSR = Nationwide Mortgage Licensing System and Registry; R&E = Research and experimentation; HECM = home equity conversion mortgages; VA = Department of Veterans Affairs; * = less than \$500,000.

Numbers may not sum to totals because of rounding.

a. Net of income and payroll tax offsets.

b. Positive numbers indicate increases in deficits (or decreases in surpluses); negative numbers indicate decreases in deficits (or increases in surpluses).

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